

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

November 9, 2005

IN RE:

**CHATTANOOGA GAS COMPANY'S WEATHER
NORMALIZATION ADJUSTMENT FOR THE PERIOD
OF NOVEMBER 1, 2003 THROUGH APRIL 30, 2004**

**DOCKET NO.
05-00176**

**ORDER ADOPTING WNA AUDIT REPORT OF THE UTILITIES
DIVISION OF THE TENNESSEE REGULATORY AUTHORITY**

This matter came before Director Deborah Taylor Tate, Director Pat Miller and Director Sara Kyle of the Tennessee Regulatory Authority (the "Authority"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on September 26, 2005 to consider the audit findings of the Authority's Utilities Division ("Staff") after review of Chattanooga Gas Company's ("CGC" or the "Company") Weather Normalization Adjustment ("WNA") for the period beginning November 1, 2004 and ending April 30, 2005. The WNA Audit Report (the "Report"), attached hereto as Exhibit 1 and incorporated into this Order as if fully rewritten herein, reports one finding for the audit period under review. The Report was filed on September 9, 2005.


The Staff found that CGC over-collected \$637.29 from its customers. The Report states that the over-collection was due to the Company using an incorrect Actual Heating Degree Day ("ADD") in the calculation of the WNA for November 26, 2004. In response, the Company agreed with the finding and stated that it mistakenly used an ADD factor of 21, when the correct number was 22.

Staff found that the amount of the over-collection is immaterial and that, except for the one finding, CGC is correctly implementing the mechanics of the WNA rider. Staff recommends that the \$637.29 over-collection from CGC's customers be refunded by the Company through the deferred gas cost account as has been the Company's past practice.

After consideration of the Report, the panel voted unanimously to approve the finding and conclusions contained therein.

IT IS THEREFORE ORDERED THAT:

The WNA Audit Report, a copy of which is attached to this Order as Exhibit 1, is approved and adopted and the finding and recommendation contained therein are incorporated into this Order as if fully rewritten herein.


Deborah Taylor Tate, Director


Pat Miller, Director


Sara Kyle, Director

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BEFORE THE TENNESSEE REGULATORY AUTHORITY

T.R.A. DOCKET ROOM

NASHVILLE, TENNESSEE

September 9, 2005

IN RE:

CHATTANOOGA GAS COMPANY

WEATHER NORMALIZATION ADJ. (WNA) AUDIT)

)

)

) **Docket No. 05-00176**

**NOTICE OF FILING BY THE UTILITIES DIVISION OF THE TENNESSEE
REGULATORY AUTHORITY**

Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Regulatory Authority (the "Utilities Division") hereby gives notice of its filing of the Chattanooga Gas Company WNA Audit Report in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of Chattanooga Gas Company (the "Company").
2. The Company's WNA filings were received on November 1, 2004, through April 30, 2005, and the Staff completed its audit of same on August 30, 2005.
3. On September 2, 2005, the Utilities Division issued its preliminary WNA audit findings to the Company, and on September 6, 2005, the Company responded thereto.
4. The preliminary WNA audit report was modified to reflect the Company's responses and a final WNA audit report (the "Report") resulted therefrom. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference. The Report

contains the audit findings of the Utilities Division, the Company's responses thereto and the recommendations of the Utilities Division in connection therewith

5. The Utilities Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the recommendations and findings contained therein.

Respectfully Submitted

A handwritten signature in cursive script, appearing to read "Pat Murphy", is written over a horizontal line.

Pat Murphy
Utilities Division
of the Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 9th day of September, 2005, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

Ron Jones
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Mr Archie Hickerson
Director, Regulatory Affairs
AGL Resources, Inc.
5100 E. Virginia Beach Boulevard
Norfolk, Virginia 23502

Mr. Phil Buchanan
Rates and Regulatory Consultant
Atlanta Gas Light Company
Location 1686
P.O. Box 4569
Atlanta, GA 30302-4569


Pat Murphy

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

CHATTANOOGA GAS COMPANY

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

DOCKET NO. 05-00176

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

UTILITIES DIVISION

SEPTEMBER 2005

COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
Docket No. 05-00176

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COMPLIANCE AUDIT
CHATTANOOGA GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 05-00176

I. INTRODUCTION AND AUDIT OPINION

The subject of this compliance audit is the Weather Normalization Adjustment ("WNA") Rider of Chattanooga Gas Company ("CGC" or "Company"), a wholly owned subsidiary of AGL Resources, Inc. The objective of this audit is to determine if the WNA adjustments were calculated correctly and applied to customers' bills appropriately between November 1, 2004 and April 30, 2005. As a result of the WNA Rider, the Company surcharged a net \$1,007,456 and \$814,998 to the residential and commercial customers respectively during the period. The impact of WNA revenues on the Company's total revenues for these classes is detailed in Section V.

The Staff's audit resulted in one (1) finding and showed that the Company over-collected \$637.29 from its customers (\$440.78 from the residential customers and \$196.51 from the commercial customers). See Section VI for a description of the Staff's findings. The amount of the over-collection is immaterial (approximately \$0.01 per customer). Therefore, except for the findings noted in this report, Staff concludes that CGC is correctly implementing the mechanics of the WNA Rider as specified by the Tennessee Regulatory Authority ("TRA" or the "Authority") and included in the Company's tariff (See Attachment 1).

II. SCOPE OF AUDIT

In meeting the objective of the audit, the Staff compared the following on a daily basis:

- (1) the Company's actual heating degree days to National Oceanic and Atmospheric Administration ("NOAA") actual heating degree days;
- (2) the Company's normal heating degree days to the normal heating degree days calculated in the last rate case; and
- (3) the Company's calculation of the WNA factor to Staff's calculation for each billing cycle during the WNA period.

The Audit Staff also audited a sample of customer bills to verify that the WNA factor had been correctly applied to the bills. The Audit Staff also examined each sample bill to determine whether the Base Rates and Purchased Gas Adjustments were billed correctly. No discrepancies were noted; therefore, the Audit Staff concludes that the Company is accurately billing its customers.

Pat Murphy, Paul Greene and Butch Phillips of the Utilities Division conducted this audit.

III. BACKGROUND INFORMATION ON THE COMPANY

Chattanooga Gas Company, with its headquarters at 6125 Preservation Drive, Chattanooga, Tennessee, is a wholly owned subsidiary of AGL Resources, Inc., which has its headquarters at Ten Peachtree Place, Atlanta, Georgia. CGC is a gas distributor, which provides service to the cities of Chattanooga and Cleveland and surrounding environs in Hamilton and Bradley counties, all located in Southeast Tennessee. The natural gas used to serve these areas is purchased by Sequent Energy Management ("Sequent" or "SEM")¹ from various suppliers and transported by Tennessee Gas Pipeline ("TGP"), East Tennessee Natural Gas ("ETNG") and Southern Natural Gas ("SNG") under tariffs approved by the Federal Energy Regulatory Commission ("FERC").

IV. BACKGROUND ON WEATHER NORMALIZATION ADJUSTMENT RIDER

On September 26, 1991, the Tennessee Public Service Commission² ("PSC") approved a three-year experimental Weather Normalization Adjustment Rider to the tariffs of Chattanooga Gas Company, Nashville Gas Company, a division of Piedmont Gas Company, Inc. and United Cities Gas Company.³ The WNA Rider was to be applied to residential and commercial customers' bills during the months of October through May of each year (*See Attachment 1*). On June 21, 1994, the PSC issued an Order authorizing the above mentioned gas companies to permanently implement an amended version of the WNA Rider.⁴ The TRA Staff audits these calculations annually.

In setting rates, the Tennessee Regulatory Authority uses a normalized level of revenues and expenses for a test year, which is designed to be the most reasonable estimate of the Company's operations during the time the rates are to be in effect. Use of normalized operating levels eliminates unusual fluctuations that may occur during the test period, which causes rates to be set too high or too low.

Specifically, one part of normalizing revenues consists of either increasing or decreasing the test year weather related sales volumes to reflect the difference between the normal and actual heating degree days. (A heating degree day is calculated as the difference in the average daily temperature and 65 degrees Fahrenheit.) This average daily temperature constitutes normal weather and is determined based on the previous thirty years weather data.

However, normal weather rarely occurs. This has two impacts:

- (1) The customers' bills fluctuate dramatically due to changes in weather from month to month; and

¹ Sequent is a marketing affiliate of CGC

² By legislative action, the Public Service Commission was replaced on July 1, 1996 by the Tennessee Regulatory Authority. *See* Act of May 24, 1995, ch. 305, 1995 Tenn. Pub. Acts 450. The TRA retains jurisdiction over the above named gas companies. *See* Tenn. Code Ann. § 65-4-104 *see also* Tenn. Code Ann. § 65-4-101 (a) (defining public utility)

³ *See* petition of Chattanooga Gas Company, Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. and United Cities Gas Company for a Rulemaking Hearing to Adopt a Weather Normalization Adjustment (WNA) Rider, Docket No. 91-01712, *Order* (September 26, 1991)

⁴ The amendment directed Chattanooga Gas Company and United Cities Gas Company to eliminate from their WNA Rider the shoulder months of October and May, and Nashville Gas Company to eliminate the shoulder months of October, April and May

- (2) The gas companies earn more or less than their authorized rate of return. For example, if weather is colder than normal, then more gas than anticipated in the rate case will be sold. This results in higher customer bills and overearnings for the company. On the other hand, if weather is warmer than normal, less gas than anticipated in the rate case will be sold, the customers' bills will be lower and the company will underearn

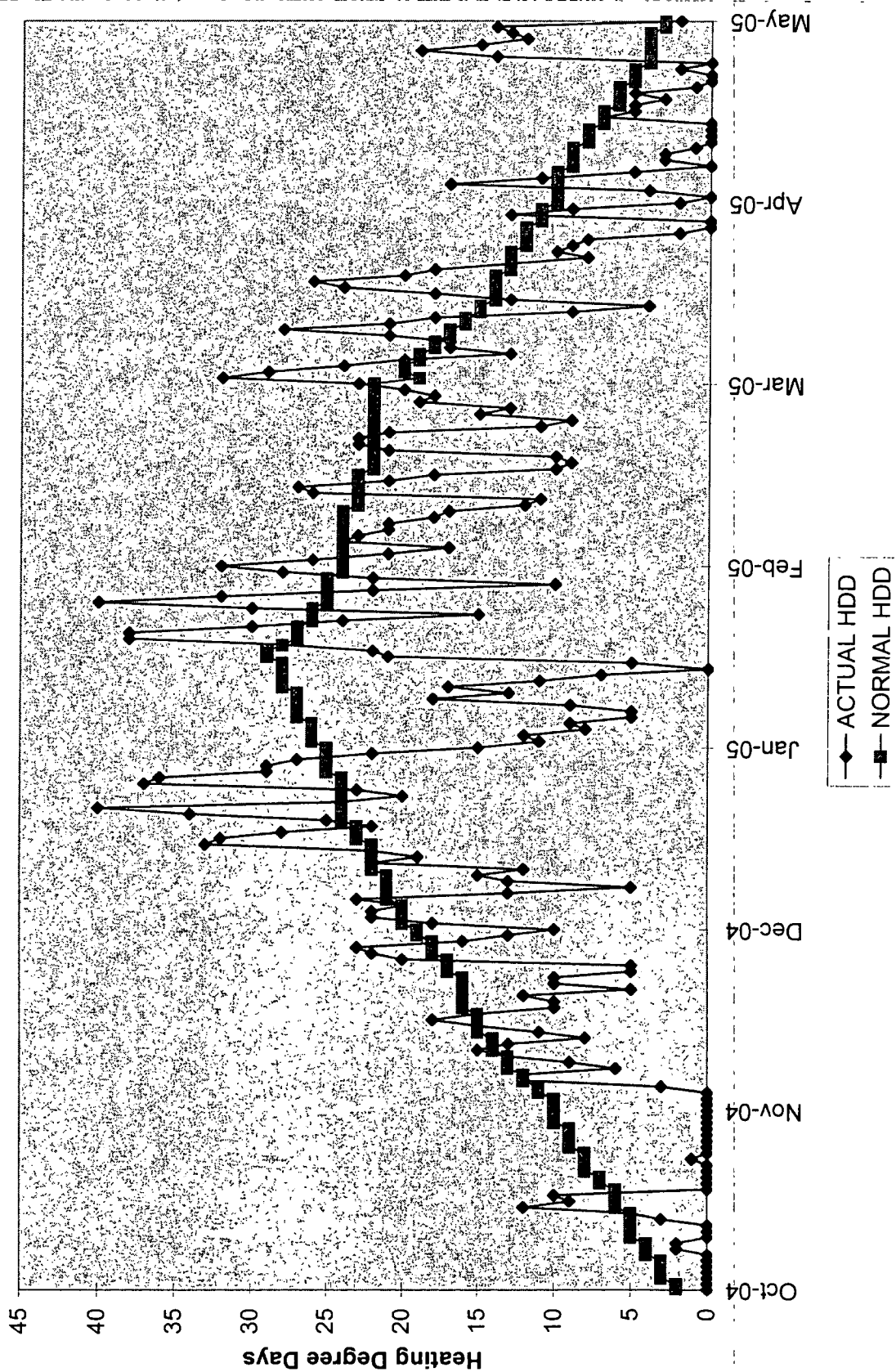
In recognition of this fact, the TRA approved an experimental WNA mechanism, which became permanent on June 21, 1994, to reduce the impact abnormal weather has on the customers' bills and on the gas utilities' operations. In periods of weather colder than normal, the customer receives a credit on his bill, while in periods of warmer than normal weather, the customer is billed a surcharge. Thus, customers' monthly bills should not fluctuate as dramatically and the gas company should have a more stable rate of return

The graph (found at the end of this section) compares the actual heating degree days to normal heating degree days for Chattanooga Gas during the 2004 - 2005 winter heating season. The table below quantifies the number of actual heating degree days by month as compared to the normal heating degree days for that month. It shows that overall the weather was approximately 17 percent (17%) warmer than normal, resulting in a net surcharge to CGC's customers for the period.

Month	Actual Heating Degree Days	Normal Heating Degree Days	Warmer/Colder than Normal
October 2004	44	180	Warmer
November 2004	321	442	Warmer
December 2004	713	697	Colder
January 2005	598	797	Warmer
February 2005	501	618	Warmer
March 2005	446	432	Colder
April 2005	167	195	Warmer
Total	2790	3361	Warmer

Chattanooga Gas Company

Comparison of Actual to Normal Heating Degree Days



V. IMPACT OF WNA RIDER

The overall winter period for Chattanooga was warmer than normal. As a result, the net impact of the WNA Rider during the November 1, 2004 through April 30, 2005 WNA period was that residential and commercial customers were **surcharged** an additional \$1,007,456 and \$814,998 respectively. The percentage of total residential and commercial revenue derived from the WNA Rider was 2.89% and 2.17% respectively. (See Table 1) This is an increase from the previous year when the residential and commercial customers were **surcharged** \$573,722 and \$492,237 respectively (See Table 2).

Table 1

Impact of WNA Rider on Residential & Commercial Revenues November 1, 2004 - April 30, 2005

	<u>WNA Rider Revenues</u>	<u>Total R&C Revenues</u>	<u>Percentage Impact of WNA Rider on R&C Revenues</u>
Residential Sales	\$1,007,456	\$34,820,560	2.89%
Commercial Sales	<u>814,998</u>	<u>37,492,318</u>	2.17%
Total	<u>\$1,822,454</u>	<u>\$ 72,312,878</u>	2.52%

Table 2

Amount Surcharged (Refunded) 2002 - 2005

	<u>Residential</u>	<u>Commercial</u>	<u>Total Surcharge/(Refund)</u>
11/02-4/03	158,753	134,516	293,269
11/03-4/04	573,722	492,237	1,065,959
11/04-4/05	<u>1,007,456</u>	<u>814,998</u>	<u>1,822,454</u>
Total	<u>\$ 1,739,931</u>	<u>\$ 1,441,751</u>	<u>\$ 3,181,682</u>

VI. WNA FINDINGS

The Staff's audit results showed a net **over-collection** from CGC's ratepayers in the amount of **\$637.29**. See table below for a breakdown of this amount by month and rate class:⁵

Month	Residential	Multi-Family	Commercial	Total
November 2004	\$ 0	\$ 0	\$ 0	\$ 0
December 2004	(306.56)	0	(143.79)	(450.35)
January 2005	(134.22)	0	(52.72)	(186.94)
February 2005	0	0	0	0
March 2005	0	0	0	0
April 2005	0	0	0	0
Total	<u>\$ (440.78)</u>	<u>\$ 0</u>	<u>\$ (196.51)</u>	<u>\$ (637.29)</u>

FINDING #1:

Exception

The Company used incorrect Actual Heating Degree Days (ADD) for November 26, 2004 in the calculation of the WNA factor.

Discussion

When calculating the WNA factor the Company used an incorrect ADD for November 26, 2004. The Company used 21 degree days on November 26, 2004 while the degree days published by NOAA were 22. The Company timely discovered this error and corrected the ADD for November 26, 2004 so that only three bill cycles were effected.

The result of this error resulted in a **\$637.29 over-collection** from CGC's customers.

Company Response

The Company agrees with the finding of the TRA Staff. The Company used the incorrect number of actual heating degree days for November 26, 2004. ADD of 21 were used, when the correct number was 22. The Company discovered this error and corrected the ADD for November 26, 2004 so that only three bill cycles were effected.

⁵ Positive nos represent an under-collection. Negative nos () represent an over-collection.

VII. CONCLUSIONS AND RECOMMENDATIONS

This audit of CGC's WNA Rider did not result in any material findings. The Company has responded to the finding and the Audit Staff concurs with those responses. The Audit Staff recommends that the \$637.29 over-collection from CGC's customers be refunded by the Company through the Deferred Gas Cost Account ("ACA Account") as has been the Company's past practice.

WEATHER NORMALIZATION ADJUSTMENT

(WNA) RIDER

PROVISION FOR ADJUSTMENT

The base rate per CCF/therm (100,000 Btu) for gas service set forth in any rate schedules utilized by the Authority in determining normalized test period revenues shall be adjusted by an amount hereinafter described, which amount is referred to as the "Weather Normalization Adjustment "

DEFINITIONS

For Purpose of this Rider

"Authority" means the Tennessee Regulatory Authority

"Relevant Rate Order" means the final order of the Authority in the most recent litigated rate case of Chattanooga Gas Company (Company) fixing the rates of the Company or the most recent final order of the Authority Specifically prescribing or fixing the factors and procedures to be used in the application of this Rider

COMPUTATION OF WEATHER NORMALIZATION ADJUSTMENT

The Weather Normalization Adjustment shall be computed to the nearest one-hundredth cent per CCF/therm by the following formula

WNA_i	=	R_i	$\frac{HSF_i(NDD-ADD)}{(BL_i + (HSF_i \times ADD))}$
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Where

- | | | |
|---------|---|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| i | = | any particular Rate Schedule or billing classification within any such particular Rate Schedule that contains more than one billing classification |
| WNA_i | = | Weather Normalization Adjustment Factor for the i th Rate Schedule or classification expressed in cents per CCF/therm |
| R_i | = | weighted average base rate (base rate less any embedded gas cost) of temperature sensitive sales for the i th schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues |
| HSF_i | = | heat sensitive factor for the i th schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues |
| NDD | = | normal billing cycle heating degree days utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues |
| ADD | = | actual billing cycle heating degree days |
| BL_i | = | base load sales for the i th schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues |

FILING WITH AUTHORITY

The Company will file as directed by the Authority (a) a copy of each computation of the Weather Normalization Adjustment, (b) a schedule showing the effective date of each such Weather Normalization Adjustment, and (c) a schedule showing the factors or values derived from the Relevant Rate Order used in calculating such Weather Normalization Adjustment

WEATHER NORMALIZATION ADJUSTMENT

(WNA) RIDER

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COMPUTATION OF WEATHER NORMALIZATION ADJUSTMENT

The Weather Normalization Adjustment shall be computed to the nearest one-hundredth cent per CCF/therm by the following formula

WNA_i	=	R_i	$\frac{HSF_i(NDD-ADD)}{(BL_i + (HSF_i \times ADD))}$
---------	---	-------	------------------------------------------------------

Where

- | | | |
|---------|---|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
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| WNA_i | = | Weather Normalization Adjustment Factor for the i th Rate Schedule or classification expressed in cents per CCF/therm |
| R_i | = | weighted average base rate (base rate less any embedded gas cost) of temperature sensitive sales for the i th schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues |
| HSF_i | = | heat sensitive factor for the i th schedule or classification utilized by the Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues |
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